

<p align="center">2003-2004 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Water Utility Capital Fund

The Water Utility Capital Fund supports the Municipal Water System capital program. Monies in this fund are expended on the acquisition, construction, and installation of water system capital improvements. This system provides water service to the North San José, Evergreen, Alviso, Edenvale, and Coyote areas and are primarily funded through user charges.

Water Utility Capital Fund

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 2,242	\$ 2,227	\$ (15)	(0.7%)
<i>Expenditure</i>	9,156	7,058	\$ 2,098	22.9%
<i>Fund Balance (est. *)</i>	4,176 *	3,882	\$ (294)	(7.0%)

The negative revenue variance (\$15,000) resulted from lower than budgeted Advanced System Design Fees (\$81,000) and Service Connection Fees (\$60,000), partially offset by higher than budgeted interest earnings (\$93,000) and Meter Installation Fees (\$33,000). Service Connection Fee and Advanced System Design Fee revenues recover actual cost to install new services.

Expenditure savings (\$2.1 million) occurred primarily due to the continuation of projects into 2004-2005. As part of the 2004-2005 Adopted Capital Budget, a total of \$2,194,000 was rebudgeted for the North Coyote Valley Water System project and \$315,000 of budgeted savings was reprogrammed to other projects. However, the North Coyote Valley Water System did not achieve sufficient year-end savings to cover the original rebudget amount. In addition, the Service Installations appropriation did not meet the estimated savings target assumed in the 2004-2005 Adopted Capital Budget (\$200,000). As a result, budget reductions are recommended in this document for the North Coyote Valley Water System (\$854,000) and Service Installations (\$169,000) projects.

The Budget Office and CIP Action Team allocations in this fund were over-expended at year-end and require ratification due to the redistribution of these costs during the year-end close process. The reallocation of these costs was required to more accurately distribute costs. On an overall basis, the expenditures of these two units were actually under budget.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Water Utility Capital Fund (Cont'd.)

Also included in this document is a recommended rebudget of expenditure savings of \$30,000 for 2004-2005 for the Utility Management System Enhancements project to fund the continuation of this project into 2004-2005.

The cumulative negative variance in fund balance (\$294,000) was due to lower than estimated revenues (\$89,000) and projects that did not achieve sufficient year-end savings to cover rebudget amounts included in the 2004-2005 Adopted Capital Budget. As described above, downward adjustments to the appropriations that did not have sufficient savings are recommended in this document.